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Revenue Review Meeting

February 16, 2012



WASHINGTON STATE  
ECONOMIC AND REVENUE FORECAST COUNCIL

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WASHINGTON STATE  
**ECONOMIC AND REVENUE FORECAST COUNCIL**

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## AGENDA

### **REVENUE REVIEW MEETING**

February 16, 2012  
10:00 a.m.

- De-facto approval of February 2, 2012 Economic Review Meeting Minutes
- Forecast Presentation
- Adoption of the Official Forecast

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STATE OF WASHINGTON

## ECONOMIC AND REVENUE FORECAST COUNCIL

*Capitol Plaza Building, PO Box 40912 □ Olympia, Washington 98504-0912 □ (360) 534-1560*

### **Meeting Minutes Economic Review**

February 2, 2012

John L. O'Brien, Hearing Room E

#### **Economic and Revenue Forecast Council Members Present**

Ed Murray, Senate  
Ed Orcutt, House of Representatives  
Ross Hunter, House of Representatives  
Brad Flaherty, Department of Revenue  
Marty Brown, Office of Financial  
Management

#### *Staff*

Steve Lerch, Interim Executive Director,  
ERFC

#### **Call to Order**

The meeting was called to order by Representative Orcutt at 2:34 p.m. Representative Orcutt introduced and welcomed recently appointed Interim Executive Director, Steve Lerch, Ph.D.

#### **Motion**

Director Brown moved and Representative Hunter seconded to adopt minutes from the Economic Review Meeting. Minutes from the November 17, 2011 Economic Review Meeting were adopted at 2:34 p.m.

#### **Other Business**

Representative Orcutt introduced and welcomed recently appointed Interim Executive Director, Steve Lerch, Ph.D. Steve Lerch is a returning Interim Executive Director, previously serving in 2008.

Representative Orcutt updated the Council on the current status of the director recruitment stating that information is being gathered to make decisions regarding the search.

#### **Presentation on Economic Forecast**

Steve Lerch presented information on the economic forecast. Steve summarized the forecast changes and provided background information on both the U.S. and Washington economies. Discussion ensued regarding foreclosure rates and business & occupation tax.

**Motion**

Representative Hunter moved to adopt the economic forecast, seconded by Director Brown. It was noted that there would be another month's worth of data available including an updated Global Insight forecast modified, as usual, by Blue Chip consensus GDP and NYMEX oil price futures. Council approved the motion at 3:06 pm.

**Adjournment**

Prior to adjournment, Representative Orcutt introduced and welcomed recently appointed Council Member Brad Flaherty, Director, Department of Revenue.

Meeting adjourned at 2:58 p.m.

**Economic & Revenue Forecast Council  
State of Washington**



**Revenue Review: February 16, 2012**

**Executive Summary**

- The U.S. economy has performed consistent with our last forecast in November, although with somewhat higher growth in employment than anticipated. Despite the relatively small change in the economic forecast, the high level of downside uncertainty in the baseline remains the same as before.
- Factors outside the state are a large part of the high downside risk. The biggest threat to the U.S. and Washington economies remains the sovereign debt crisis in Europe. Although recent news suggests an agreement for a second bailout of Greece, questions remain regarding the finances of several Eurozone countries. Recently six European countries had their debt ratings downgraded, with two more receiving negative outlooks. It is likely that Europe will enter another recession or is already in one. If the sovereign debt crisis leads to a financial crisis, the U.S. economy is likely to enter a new recession as well.
- The weakness in Europe has contributed to a slowdown in Asia as well. We expect China in particular to slow. So far it looks as though they will experience a soft landing as growth is intentionally slowed to prevent an overheating economy. If this is not managed properly and the Chinese economy experiences a hard landing, this could create another global recession.
- Political gridlock in Washington D.C. has left fiscal policy up in the air. In December, Congress extended the payroll tax cut and emergency unemployment benefits, but only for two months, thereby maintaining the maximum possible uncertainty. Leadership in the House of Representatives has indicated a desire to extend the payroll tax cut and emergency unemployment benefits through the end of the year. However, given the uncertainty regarding passage of these proposals, our forecast has removed Global Insight's assumption that the current payroll tax cut and unemployment benefits will be extended after February 2012.
- Our current forecast is based on the February 2012 Global Insight U.S. macro forecast, modified as usual by the February Blue Chip Consensus GDP forecast and the NYMEX futures prices for West Texas Intermediate (WTI) crude oil as of February 8, 2012.
- Unlike the discordant notes from fiscal policy, the stance of monetary policy has been quite clear. At their meeting on January 25, the Federal Open Market Committee indicated they expect to maintain the target fed funds rate at the lower bound "at least through late-2014" in order to provide additional accommodation to the economy. However, it continues to look as if the

economy is caught in a classic "Liquidity Trap" where monetary policy playing a lone hand has lost its effectiveness. In such conditions, for macroeconomic policy to be effective, both monetary and fiscal policies need to be working in tandem. That does not appear likely right now.

- Data releases since the November forecast have been somewhat encouraging. Real gross domestic product grew at a seasonally adjusted annualized rate of 2.8% in the fourth quarter, the strongest rate since the middle of 2010. Real consumer spending grew 2.0% in the fourth quarter. Still, the sustainability is questionable since real final sales increased at just a 0.8% rate. Most of the growth in GDP for the quarter came from inventories which contributed 1.9 percentage points to the total 2.8% rate.
- Housing remains weak, although the worst is now behind us. Housing starts fell 4.1% in December, to a 657,000 annual rate, still the second-highest monthly reading since April 2010. More importantly for the future, housing permits are improving. Single-family permits climbed to their highest level in 12 months. Multi-family permits are faring even better than the single-family permits. Despite declining 3.7% in December, a clear upward trend is discernable. New home sales, which are a small fraction of the market, fell 2.2% to 307,000 (SAAR) units. Existing home sales rose 5.0% to 4.6 million (SAAR) units, the third consecutive monthly increase. The CoreLogic house price index declined in 2011 by 4.7%, although this was heavily influenced by distressed sales. Excluding distressed sales, houses prices declined by a much smaller 0.9%. The recent settlement with several large mortgage lenders over alleged abuses in the foreclosure process will provide some help for the housing market but is unlikely to have a dramatic impact.
- Real GDP is now above its pre-recession peak, but it is being produced with 5.9 million fewer jobs. Growth in jobs has been very slow in this recovery, although the January employment data, showing an increase of 243,000 jobs and a reduction in the unemployment rate from 8.5% to 8.3%, were much better than expected.
- Industrial production grew 0.4% (SA) in December, following a 0.3% (SA) decline in November. The Institute for Supply Management's manufacturing Purchasing Managers Index for December increased 1.2 percentage points to 53.9, the highest reading since June 2011. Readings above 50 indicate growth. The non-manufacturing index which increased six-tenths of a percentage point to 52.6 also indicates continuing growth in services. Core capital goods orders (i.e. durables excluding aircraft and military) which are a proxy for business investment, increased 2.9% in December, after declining 1.2% in November and 0.9% in October.
- Although consumer confidence had shown signs of firming in recent months, the latest readings have weakened. The Conference Board's index dropped from 64.8 in December to 61.1 in January. The University of Michigan consumer sentiment measure moved down from 75.0 in January to 72.5 in February, the first time the index has declined since August 2011.
- January light motor vehicle (LMV) sales increased 4.6% to 14.2 million (SAAR) units. The trend remains positive although this is more due to



replacement demand rather than a return of confidence. The average light vehicle on the road remains over 10 years old.

- The Blue Chip Consensus real GDP growth forecasts, our objective starting point each forecast cycle, are now at 2.2% and 2.6% for 2012 and 2013 compared to 2.1% and 2.8% in our November forecast. This is our first forecast for the 2013-15 biennium. The Blue Chip forecast for real GDP growth in 2014 and 2015 is 2.9% per year.
- The Washington economy is recovering about as expected in the November forecast. There have been no major developments since November that have altered the outlook significantly. The state's economy is narrowly outperforming the U.S. economy and we expect that trend to continue. The aerospace sector has added 11,500 jobs since May 2010, which is nearly double the 6,000 lost during the recession, while the software sector has added 1,800 jobs since December 2009, making up for most of the 2,500 jobs lost during the recession. Export growth is slowing but still strong. Total exports in the fourth quarter were up by 15% year-over-year. Exports of transportation equipment (mostly Boeing planes) account for nearly 50% of the state's exports and were up 27% from the previous year. Exports other than transportation equipment were up 5%. Boeing has approximately seven years of commercial orders on the books.
- On the downside, construction, which has a disproportional impact on revenue, remains weak. While no longer falling, employment in the construction sector is flat. Government employment continues to decline, especially at the state and local level. The state's economy is also vulnerable to potential adverse national and global developments.
- We have two months of new Washington employment data since the November forecast was released. Employment growth in November and December was slightly better than the November projection. The Washington economy added a total of 6,500 jobs in the final two months of the year compared to the 4,300 net new jobs expected in the forecast. The private sector added 7,800 jobs (we had expected 4,600) but the public sector lost 1,300 jobs (we had expected a loss of 300). The manufacturing sector continues to show strong employment growth, adding 3,600 jobs of which 2,300 were in aerospace. Construction employment declined by 400. Private service-providing industries added the majority of new jobs in the two month period at 4,600 jobs. We had expected an increase of 3,700 private service-providing jobs..
- Housing construction remains weak but the fourth quarter was slightly better than expected in the November forecast. Single-family permits averaged 13,800 units (SAAR) which is higher than our forecast of 11,500 units for the quarter. Multi-family permits, however, were slightly lower than expected, averaging 7,600 units compared to the 8,000 expected for the quarter. Overall permits averaged 21,400 units compared to 19,400 expected in the November forecast. We continue to believe the trend is positive in multi-family housing due to rising rents and declining apartment vacancies. The near-term outlook for single-family construction is flat to negative.

- Both headline and core inflation rates in Seattle are higher than in the U.S. and higher than we expected in our November forecast. The main reason for higher inflation in Seattle than in the U.S. is shelter costs. In December, shelter costs rose 3.0% over the year in Seattle compared to 1.9% for the U.S.
- We continue to believe the Washington economy will outperform the U.S. economy. Washington is benefitting from strong export growth and hiring at both Boeing and Microsoft. We have raised our Washington job growth forecast for 2012 and 2013 to 1.7% and 2.0% from 1.2% and 1.9% in the November forecast. Our new income growth forecast is slightly lower at 2.7% and 4.6% compared to 2.8% and 4.7% in the November forecast. Our forecast for 2014 and 2015 calls for job growth of 1.8% in each year and income growth of 5.7% and 5.5%. While our baseline forecast is similar to the November forecast, considerable uncertainty remains.
- The effects of SHB 2169, passed in the December legislative session, will add \$50.6 million to the General Fund-State forecast for the current biennium. The bill allows securities that are in unclaimed property to be sold sooner than previously allowed. Sales of securities have already brought in an extra \$24.7 million as of January 31<sup>st</sup> and an additional \$25.9 million is expected over the next several months. In addition, a large scheduled audit payment and a change in the application of leasehold excise taxes will bring in \$12.9 million, for a total non-economic forecast increase of \$63.5 million in the current biennium.
- Forecast changes due to economic conditions, including revenue already collected, added \$32.2 million, for a total increase of \$95.7 million above the November forecast. General Fund-State revenue for the 2011-13 biennium is now forecasted at \$30.284 billion.
- The initial forecast of General Fund-State revenue for the 2013-15 biennium is \$32.294 billion, an increase of 6.6 percent from the revenue of the current biennium.

**Downside Risks:**

- The level of uncertainty in the baseline is high. Downside risks are still very elevated.
- The European sovereign-debt crisis takes a turn for the worse, with Greece exiting the Eurozone.
- A European banking crisis that affects U.S. banks.
- A hard landing in China.
- Turmoil in global oil markets due to a blockade of the Strait of Hormuz or unrest in oil-producing countries such as Iraq, Kazakhstan, or South Sudan.
- Unexpected events – natural disasters, political upheaval, etc.

**Upside Risks:**

- An extension of the payroll tax cuts and unemployment insurance benefits.
- Underlying pent-up demand continues to drive the recovery.
- Hiring picks up, and triggers a virtuous cycle.
- Greek debt restructuring is successful, the rest of the Eurozone provides sufficient, credible, and early support to stabilize financial markets and prevent any contagion.
- European governments are able to build a firewall around their banks, so the sovereign debt crisis does not turn into a banking crisis.
- Political gridlock in the nation's capital eases.

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# Revenue Review

Presented to  
The Economic & Revenue Forecast Council

Steve Lerch  
Interim Chief Economist & Executive Director

February 16, 2012  
Olympia, Washington



**WASHINGTON STATE**  
**ECONOMIC AND REVENUE FORECAST COUNCIL**

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## Summary

- Events are unfolding largely as expected in the November forecast
- However, the uncertainty in the baseline remains very high, mostly due to out-of-state factors
- Within WA, there is fiscal drag from declining state and local government budgets
- Revenue growth has been restrained due to a stagnant construction sector
- Revenues since the November forecast are \$45 million (1.1%) above expectations
- This forecast increases expected GF-S revenues by \$96 million in the current biennium

Revenue Review  
16 February 2012

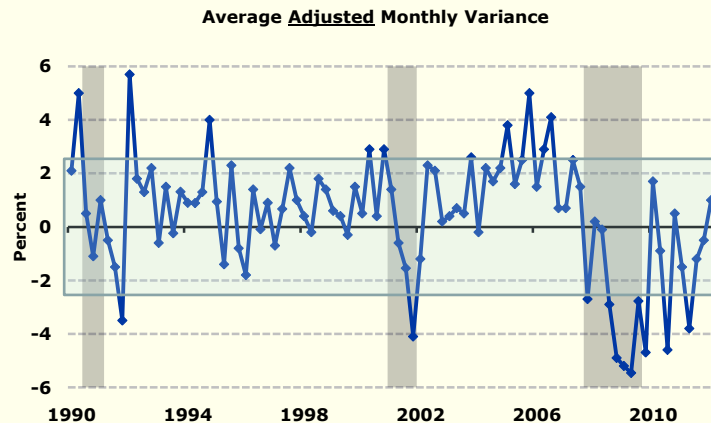
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## Revenue is coming in close to the November forecast

The variances reported here are net of unexpected one-time payments.



Source: ERFC; collections through February 10, 2012

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## The state's risk matrix shows most risks from outside state



### Washington's Economy

EUROPE  
Sovereign  
Debt



EUROPE  
Banks



U.S.  
Banks

European  
Recession



Asia  
Slowdown



U.S.  
Trade

Political Gridlock In  
Washington DC

- Election cycle
- Iran's effect on oil

Weak consumer and business confidence

**State of  
Washington**

**Pluses**  
Aerospace  
Software  
Exports

**Minuses**  
Construction  
State & Local  
Government

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Source: ERFC

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## U.S. banks have reduced their direct exposure to European banks

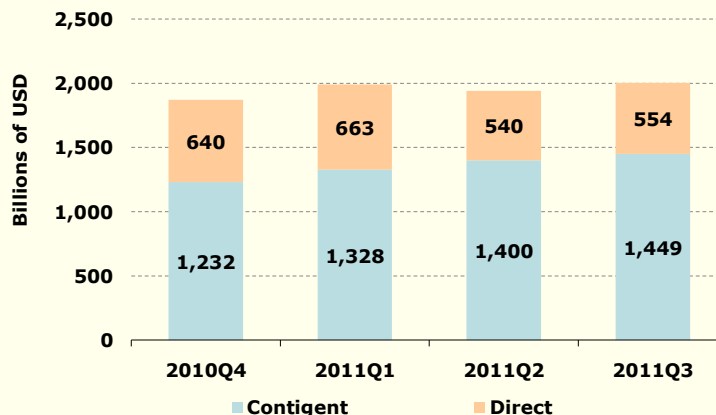
Contingent liabilities continue to increase

Total value at risk remains close to \$2 trillion

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U.S. Bank Exposure



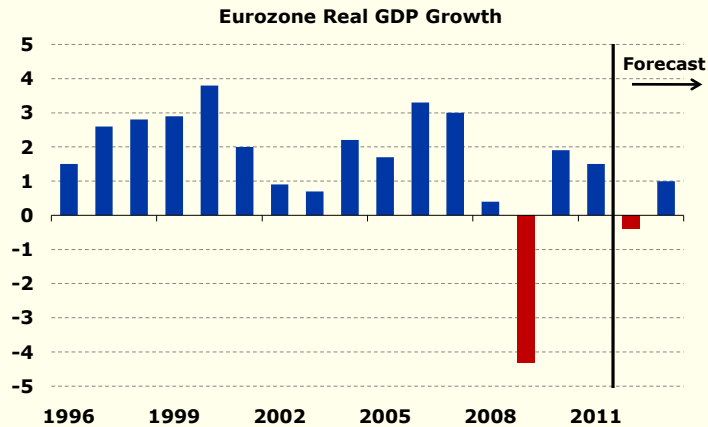
Source: Bank of International Settlements, 2011 Q3

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## Europe is likely in recession



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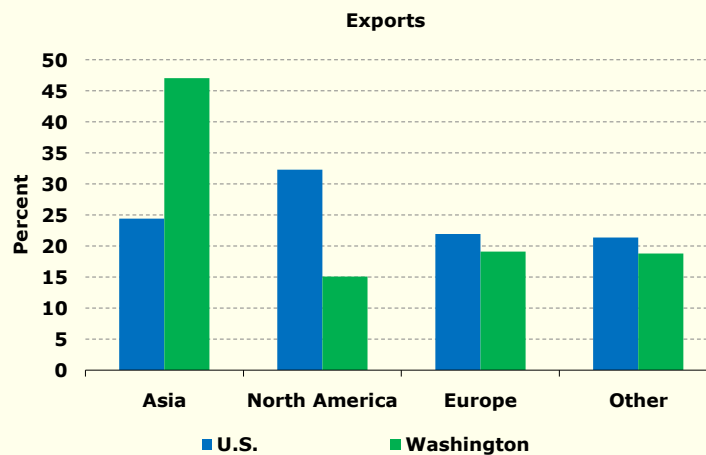
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Source: Eurostat, Blue Chip Economic Indicators, data through January 2012

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## Washington trade is more exposed to Asia



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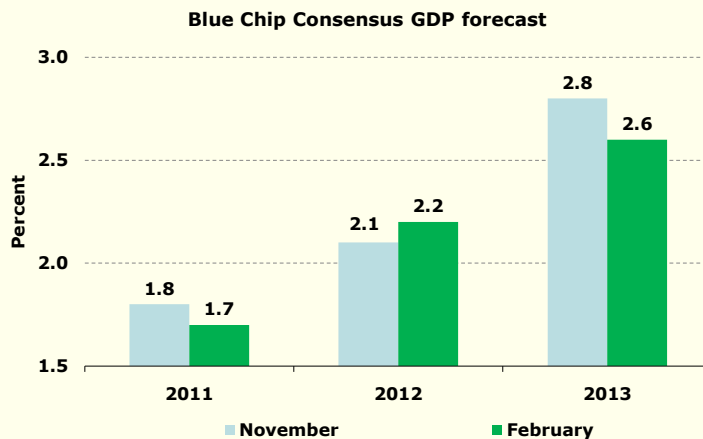
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Source: Wiser Trade Data; through 2011

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## The consensus economic outlook has been fairly steady recently



Source: Blue Chip Economic Indicators, data through January 2012

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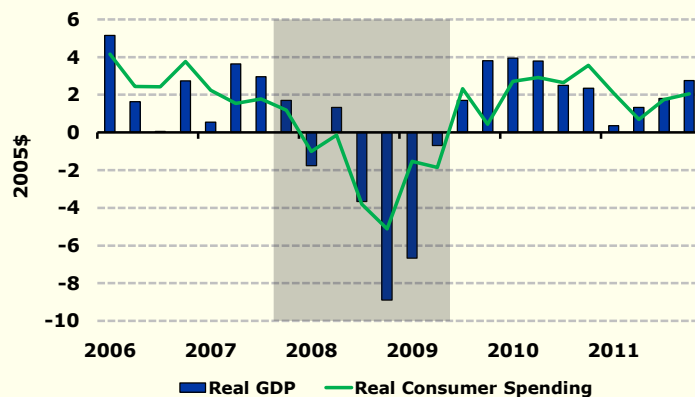
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## Real GDP growth is improving

**Percent growth, SAAR**



Source: BEA, data through 2011 Q4, advance estimate

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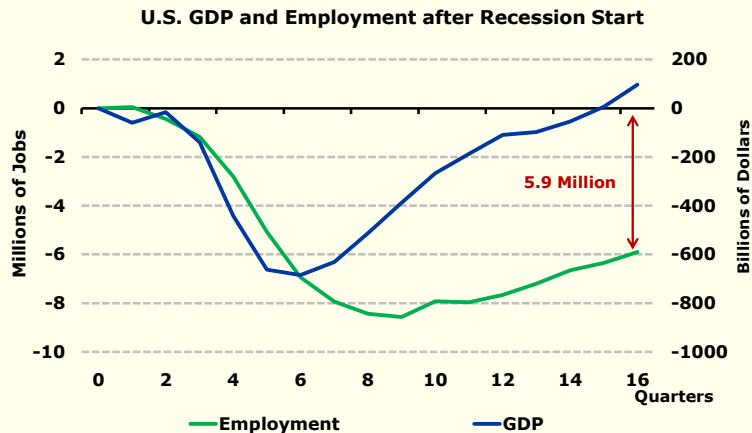


## The U.S. economy is now producing its pre-recession output with fewer jobs

Data normalized to recession start, 2007Q4 = 0

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Source: BEA, BLS, ERFC; data through 2011 Q4

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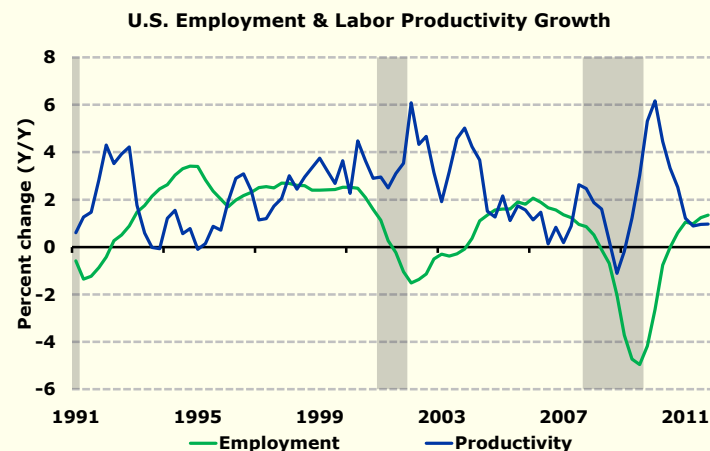


## Labor productivity growth remains low, helping job growth

Any increase in final demand will translate to job growth after labor productivity declines.

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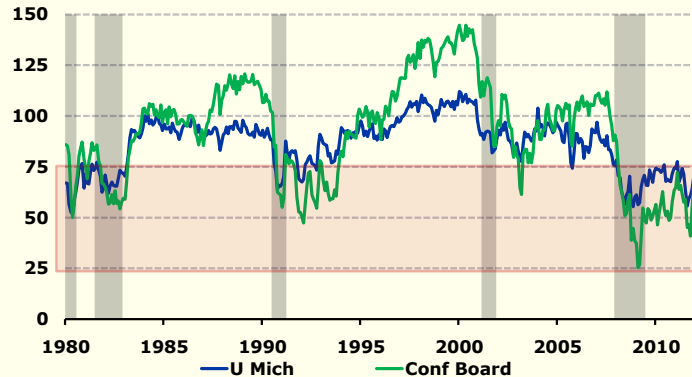
Source: BLS; data through 2011 Q4

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## Consumer confidence is showing some signs of firming, but still weak

Index  
Mich: 1966Q1 = 100, SA  
Conf Board: 1985 = 100, SA



Source: University of Michigan; Conference Board, data through February 2012

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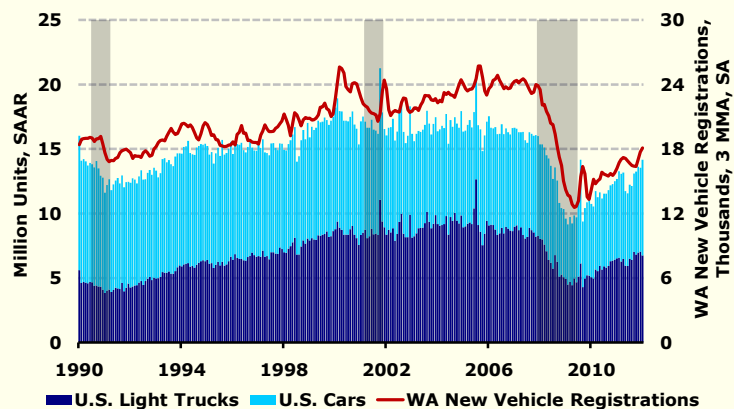
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## U.S. LMV sales have recovered from recent supply chain disruptions

U.S. LMV sales in January were up 11.2% Y/Y.



Source: Autodata Corporation, WA DOL; data through January 2012

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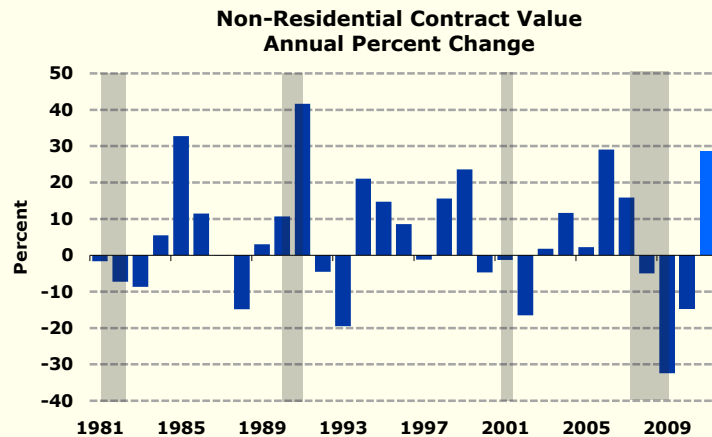
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## WA non-residential contracts have turned up for the first time in four years

Contract values are still 29% below 2007



Source: McGraw-Hill Construction, data through December 2011

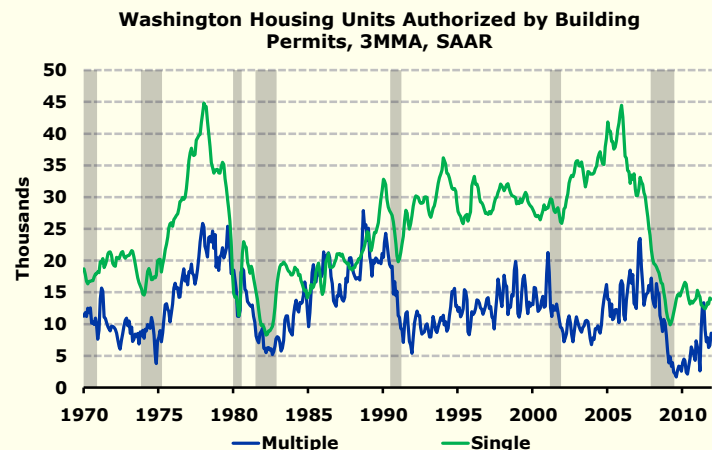
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## WA multi-family building permits are improving



Source: U.S. Census Bureau; data through December 2011

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## Single-family home prices continue to decline

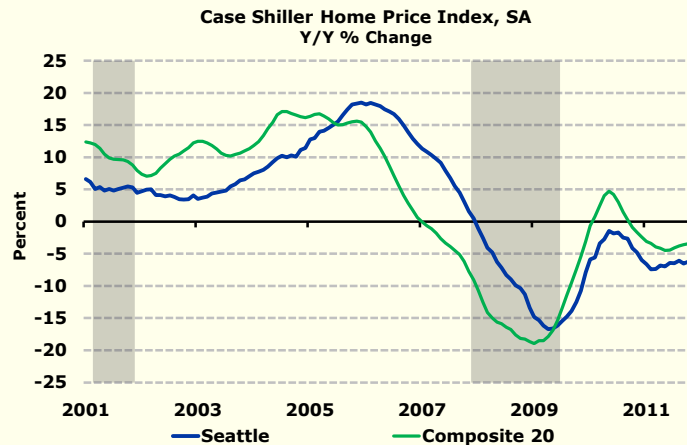
Nov 2011

U.S. is  
down  
3.7%

SEA is  
down  
6.3%

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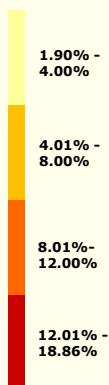


Source: S&P/Case-Shiller; data through November 2011

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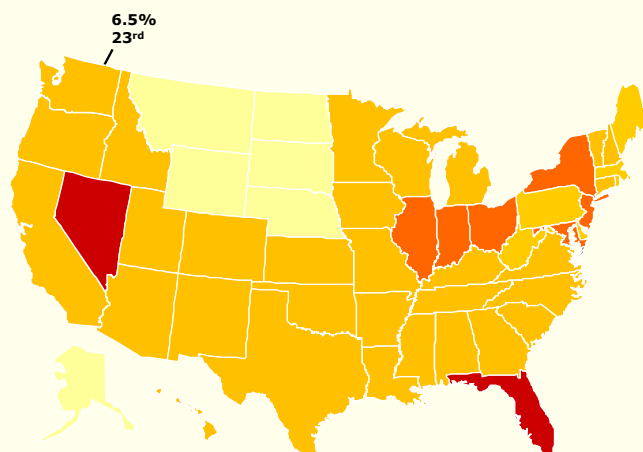


## Percentage of loans that are 90 days past due or in foreclosure....



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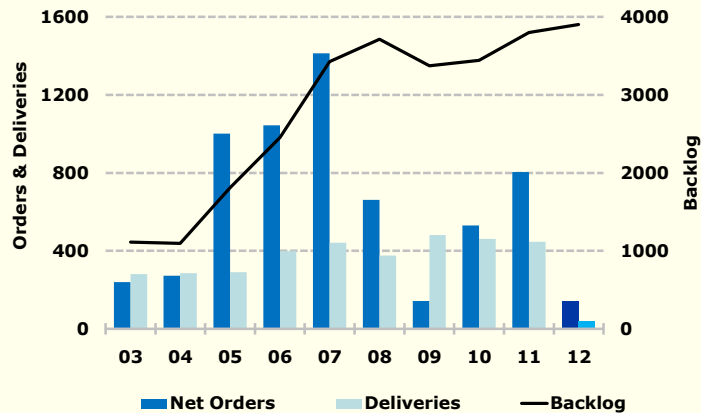
Source: Mortgage Bankers Association, data through third quarter 2011

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## Boeing has over 7 years of commercial orders on its books

Excludes the military's new refueling tanker



Source: Boeing, data through January 2012

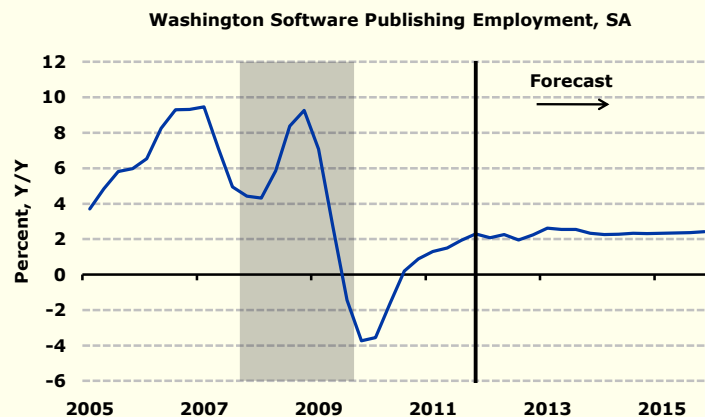
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## Software publishing employment is growing



Source: ERFC February 2012 forecast; actual data through 2011Q4

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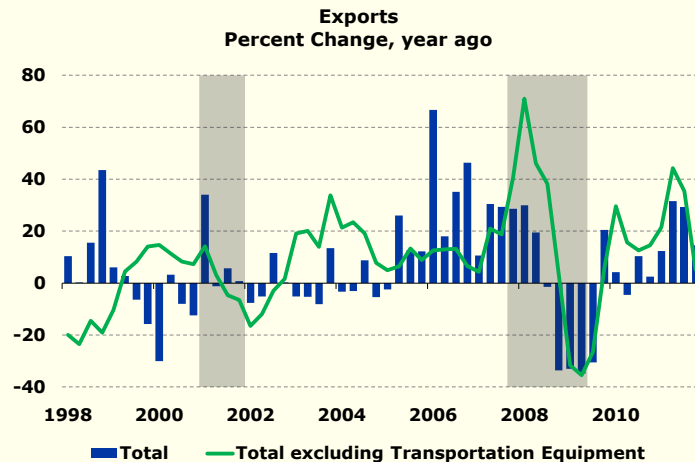


## WA export growth has slowed

Trans.  
Equip.  
exports  
were up  
27% Y/Y in  
Q4

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## WA employment will recover slightly faster than the U.S.

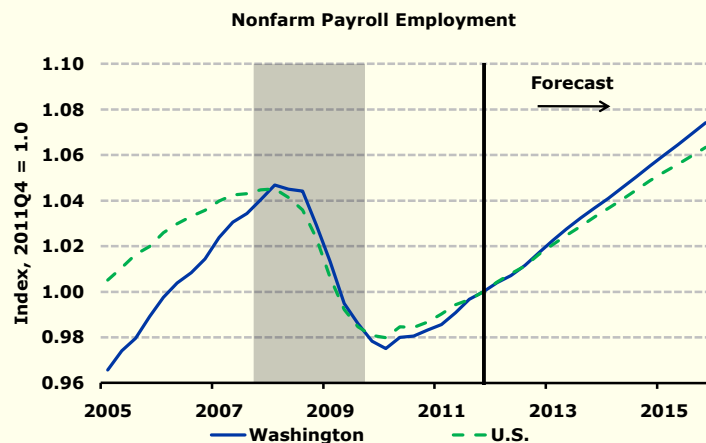
Date of  
regaining  
peak:

**WA:**  
2014Q3

**U.S.:**  
2014Q4

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## WA personal income will recover faster than that of the U.S.

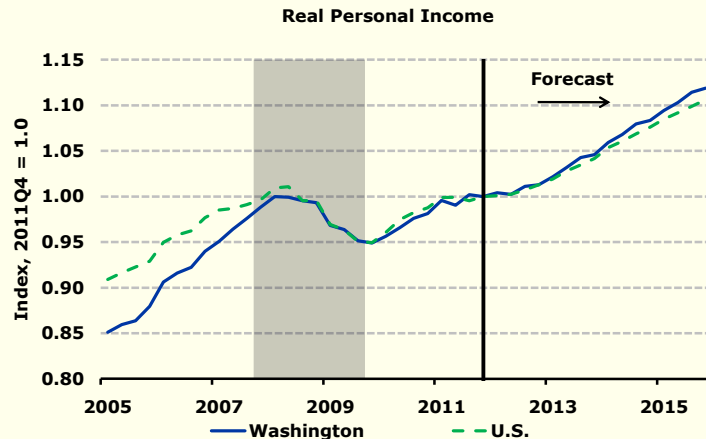
Date of regaining peak:

**WA:**  
2011Q3

**U.S.:**  
2012Q4

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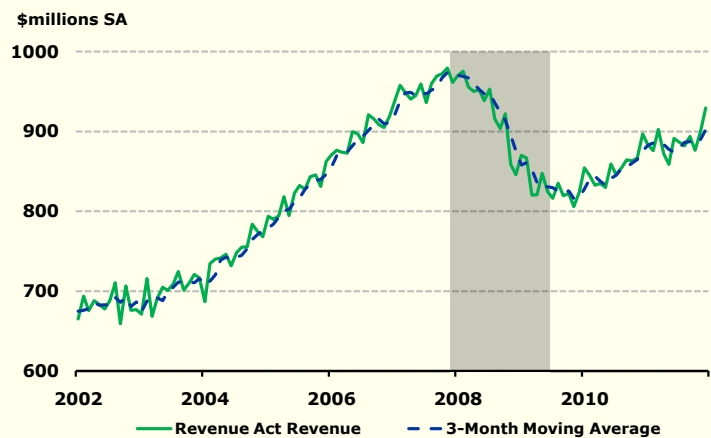


## Revenue Act collections are growing as forecasted

Adjusted collections were up 6.2% Y/Y in the January 11 - February 10, 2012 collection period.

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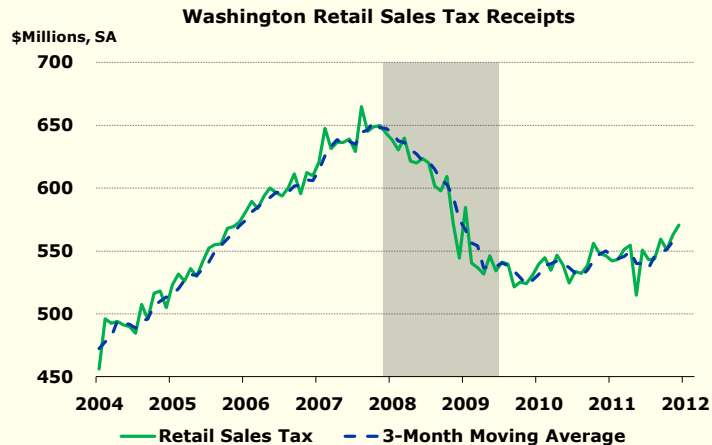


## WA sales tax receipts show signs of picking up

Preliminary seasonally adjusted sales tax receipts were up 5% year-over-year for December activity.

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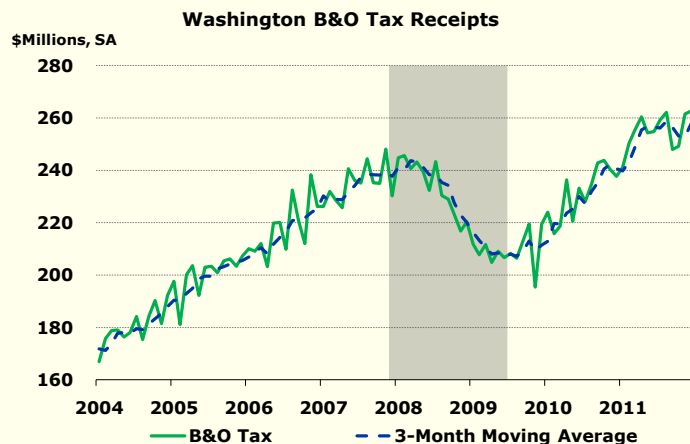


## B&O tax receipts returned to growth after late fall slowdown

Much of the spring boost and late fall slowdown in B&O taxes was due to the effects of oil and gas prices on gross receipts of oil refineries and gas stations. Oil and gas prices are once again on the rise.

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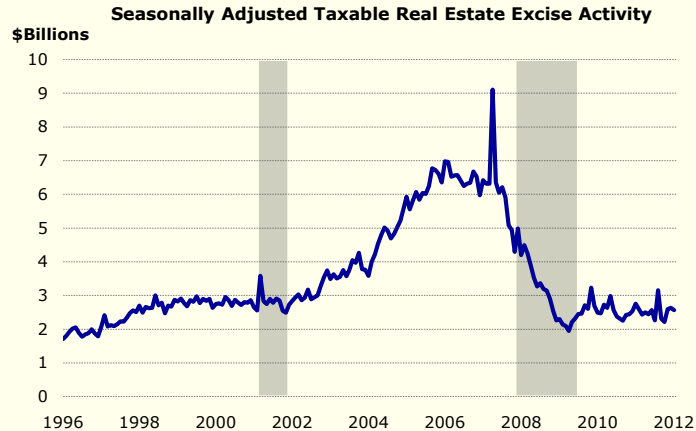


## REET activity above forecast for last three months but still no clear trend

Taxable activity reported in November through January was higher than anticipated. Preliminary January activity was down 0.5% year-over-year

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## Forecast changes: General Fund State, 2011-2013 Biennium

**November Forecast:**  
**\$30,188 million**

USD millions	February Forecast			
	<u>Non-economic Change</u>	<u>Forecast Change</u>	<u>Forecast</u>	<u>Total Change*</u>
Dept. of Revenue	\$64	\$27	\$28,695	\$90
All other agencies	\$0	\$6	\$1,589	\$6
<b>Total GF-S</b>	<b>\$64</b>	<b>\$32</b>	<b>\$30,284</b>	<b>\$96</b>

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\* Detail may not add to total due to rounding

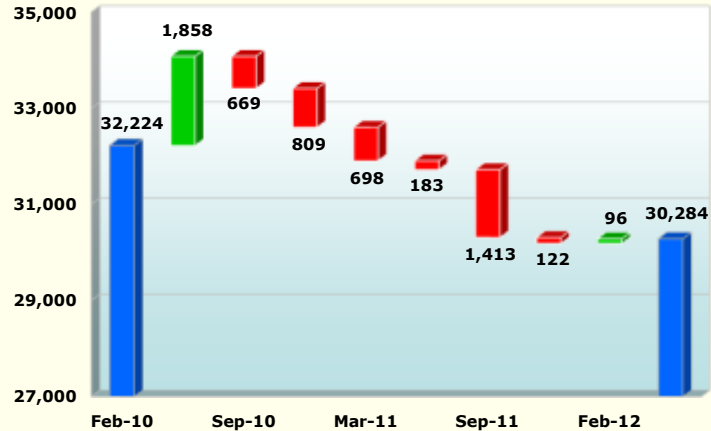
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## Forecast revisions to the 2011-13 biennium

GF-S  
New  
Definition

USD,  
millions



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Source: ERFC; data through February 2012 forecast

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## Initial Forecast: General Fund State, 2013-2015 Biennium

USD  
millions

	Forecast
Dept. of Revenue	\$31,110
All other agencies	\$1,319
<b>Total GF-S</b>	<b>\$32,428</b>

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\* Detail may not add to total due to rounding

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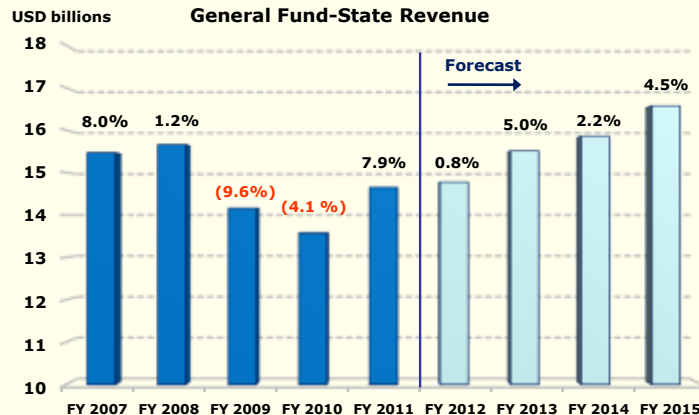


## General Fund\* forecast by fiscal year

FY 2011 revenues were boosted by the tax amnesty program and one-time transfers of non-GF-S funds into the GF-S

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\*General Fund & Related Funds for FY 07-09, General Fund – new definition for FY 10-13  
Source: ERFC forecast, February 2012

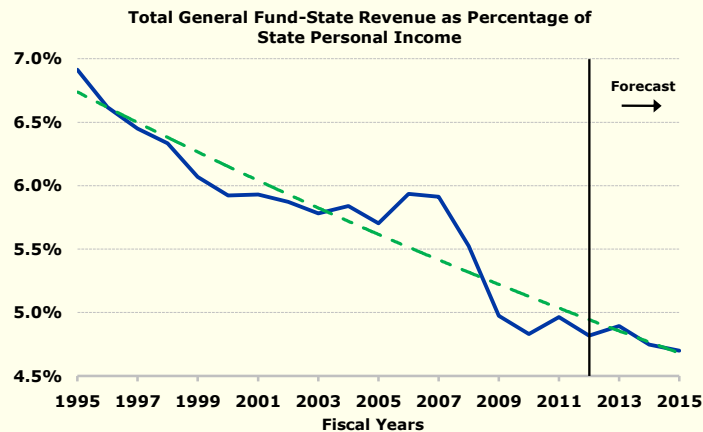
WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



## GF-S revenue as a share of personal income returns to trend in FY13

Revenue Review  
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\*Current definition of Revenue Act  
Source: ERFC; data through FY 2011, February 2012 forecast

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## Real Per Capita General Fund\*-State Revenue

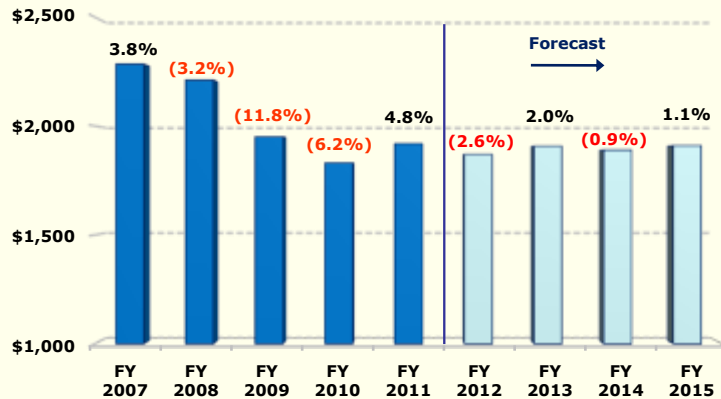
\* General Fund & Related Funds for FY 2007-2009

General Fund – new definition, for FY 2010-2015

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Per Capita GF-S\*, \$2005



Source: ERFC forecast, February 2012

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## 2011-13 Biennium alternative forecasts – cash basis

	2011-13 Biennium	Difference From the baseline
<b>\$Millions</b>		
<b>Feb 2012 Baseline (50%)</b>	<b>\$30,284</b>	
<b><u>Feb 2012 Alternative Forecasts</u></b>		
<b>Optimistic (10%)</b>	<b>\$32,025</b>	<b>\$1,741</b>
<b>Pessimistic (40%)</b>	<b>\$28,749</b>	<b>(\$1,535)</b>
<b>Probability Weighted Average</b>	<b>\$29,844</b>	<b>(\$440)</b>
<b>GCEA*</b>	<b>\$30,261</b>	<b>(\$23)</b>

\*Based on the Governor's Council of Economic Advisors' assumptions

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## 2013-15 Biennium alternative forecasts – cash basis

<u>\$Millions</u>	<b>2013-15 Biennium</b>	<b>Difference From the baseline</b>
<b>Feb 2012 Baseline (50%)</b>	<b>\$32,428</b>	
<b><u>Feb 2012 Alternative Forecasts</u></b>		
<b>Optimistic (10%)</b>	<b>\$36,610</b>	<b>\$4,182</b>
<b>Pessimistic (40%)</b>	<b>\$28,590</b>	<b>(\$3,838)</b>
<b>Probability Weighted Average</b>	<b>\$31,311</b>	<b>(\$1,117)</b>
<b>GCEA*</b>	<b>\$31,900</b>	<b>(\$528)</b>

\*Based on the Governor's Council of Economic Advisors' assumptions

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## Conclusion

- The forecast for the 2011-13 Biennium is \$96 million higher
- Revenues are expected to grow 7.4% between the 2009-11 and 2011-13 biennium and 6.6% between the 2011-13 and 2013-15 biennium
- The national and state economies appear headed for an extended period of muddle-through – slow economic and job growth, high unemployment and weak confidence
- The level of uncertainty in the baseline remains extremely high, and downside risks outweigh upside risks

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## Questions

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**360-534-1560**



### Changes to the General Fund-State Cash Forecast-by Agency

Comparison of the February 2012 to the November 2011 Forecast

2011-13 Biennium

Millions of Dollars

	<u>November 2011 Forecast*</u>	<u>Non-economic Changes**</u>	<u>Forecast Change</u>	<u>February 2012 Forecast</u>	<u>Total Change<sup>#</sup></u>
Department of Revenue	\$28,604.7	\$63.5	\$26.6	\$28,694.8	\$90.1
All other Agencies	\$1,583.6	\$0.0	\$5.6	\$1,589.2	\$5.6
Total General Fund-State	<b>\$30,188.3</b>	<b>\$63.5</b>	<b>\$32.2</b>	<b>\$30,284.0</b>	<b>\$95.7</b>

\*Forecast for GF-S for the 2011-13 biennium adopted November 2011

\*\*Effects of SHB 2169 - Modifying the Uniform Unclaimed Property Act (\$50.6 m), plus large expected audit payment and expansion of leasehold excise tax roll (\$12.9 m)

<sup>#</sup>Details may not add due to rounding

**General Fund-State Cash Forecast-by Agency**  
2013-15 Biennium  
Millions of Dollars

February 2012  
Forecast

Department of Revenue	\$31,109.8
-----------------------	------------

All other Agencies	\$1,318.6
--------------------	-----------

<b>Total General Fund-State</b>	<b>\$32,428.3</b>
---------------------------------	-------------------

# Track Record for the 2011-13 General Fund-State Cash Forecast

February 2010 through February 2012

Cash Basis - Millions of Dollars

<u>Date of Forecast</u>	<u>Department of Revenue*</u>	<u>Other Agencies</u>	<u>Subtotal*</u>	<u>Non-Economic Changes**</u>		<u>Total Change</u>	<u>Total General Fund-State Cash Basis*</u>
<b>February 2010 #</b>	\$30,658	\$1,566					\$32,224
<b>Changes to Forecast</b>							
June 2010	219	(21)	197	1,661 #1		1,858	34,083
September 2010	(610)	(48)	(659)	(10) #2		(669)	33,414
November 2010	(584)	(7)	(591)	(218) #3		(809)	32,605
March 2011	(640)	(29)	(668)	(30) #4		(698)	31,907
June 2011	(217)	(8)	(226)	43 #5		(183)	31,724
September 2011	(1403)	(24)	(1,427)	14 #6		(1,413)	30,311
November 2011	(159)	(1)	(160)	38 #7		(122)	30,188
February 2012	27	6	32	63 #8		96	30,284
<b>Total change***:</b>							
From February 2008	(3,369)	(133)	(3,501)	1,561		(1,940)	
Percent change	(11.0)	(8.5)	(10.9)	4.8		(6.0)	

\* Excludes legislative, judicial, statutorily required or other major non-economic changes.

\*\* Includes legislative, judicial, statutorily required or other major non-economic changes.

\*\*\* Detail may not add to total due to rounding.

# First official forecast for the 2011-13 biennium.

#1 Impact of 2010 legislation and budget driven revenue.

#2 Reversal of DOR RTA administrative fee

#3 Effects of Initiative 1107

#4 Effects of legislation from December 2010 session

#5 Effects of 2011 legislative and budget-driven revenue change, DOR fee change, and reduced future revenue due to 2011 amnesty program

#6 Expiration of local sales and use tax credit upon retirement of Safeco Field bonds

---

**February 2012**Alternative Forecasts  
Millions of Dollars

Cash Basis

**2011-13 Biennium**

	<u>2011-13 Biennium</u>	<u>Difference From the February 2012 Baseline</u>
February 2012 Baseline (50%)	\$30,284	
February 2012 Alternative Forecasts		
Optimistic (10%)	\$32,025	\$1,741
Pessimistic (40%)	\$28,749	(\$1,535)
Probability Weighted Average	\$29,844	(\$440)
GCEA*	\$30,261	(\$23)

**2013-15 Biennium**

	<u>2013-15 Biennium</u>	<u>Difference From the February 2012 Baseline</u>
February 2012 Baseline (50%)	\$32,428	
February 2012 Alternative Forecasts		
Optimistic (10%)	\$36,610	\$4,182
Pessimistic (40%)	\$28,590	(\$3,838)
Probability Weighted Average	\$31,311	(\$1,117)
GCEA*	\$31,900	(\$528)

---

\* Based on the Governor's Council of Economic Advisors Assumptions.

### Electronic Filers\*

Year-over-year growth in payments, same taxpayers  
Percent

NAICS/Sector		Dec -10	Jan -11	Feb-11	Mar-11	Apr-11	May-11	June-11	July-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec -11
441	Motor vehicles & parts	8.0	10.2	11.4	8.3	9.3	5.3	6.7	(0.3)	2.7	4.9	5.7	5.5	7.7
442	furniture and home furnishings	7.6	2.7	3.9	6.8	6.6	1.4	2.4	3.9	6.4	5.3	(1.3)	4.3	0.9
443	Electronics & appliances	10.8	35.4	7.0	5.2	28.9	12.5	3.2	4.6	11.5	7.4	7.2	0.2	7.8
444	Build. Mat./garden equip.	1.0	(3.6)	(8.9)	(11.5)	(3.3)	0.5	5.8	(0.9)	6.2	4.7	(0.2)	3.4	4.5
445	Food & beverage stores	3.5	2.1	2.3	(1.8)	1.8	2.1	(3.1)	(7.0)	7.8	(11.5)	(6.9)	4.0	(6.4)
446	Drug & health stores	2.3	3.8	3.5	7.1	5.9	4.8	0.9	(0.9)	3.5	4.9	0.7	1.0	5.3
447	Gas stations & convenience stores	5.5	8.4	9.4	8.3	10.4	12.7	5.8	2.3	7.3	8.2	3.9	6.4	3.6
448	Apparel & accessories	6.8	5.1	5.8	4.6	9.4	6.1	8.2	8.5	3.6	3.3	6.5	7.9	3.0
451	Sporting goods,toys,books,music	2.2	3.4	4.6	1.2	3.4	2.0	3.4	4.8	6.4	1.8	4.6	5.7	1.2
452	General merchandise stores	1.9	2.1	1.7	(1.2)	3.0	0.4	1.5	(1.0)	(0.4)	(0.9)	0.3	0.4	0.4
453	Miscellaneous retailers	(0.4)	4.0	6.8	(0.1)	2.6	(3.2)	0.6	7.1	2.9	(4.9)	3.9	15.7	7.4
454	Nonstore retailers	8.9	16.4	16.4	16.5	12.5	14.3	9.6	9.8	14.3	5.4	14.9	17.0	13.0
<b>44-45</b>	<b>Sub total: Retail Trade</b>	<b>4.4</b>	<b>6.8</b>	<b>4.8</b>	<b>2.4</b>	<b>6.3</b>	<b>3.4</b>	<b>3.6</b>	<b>1.1</b>	<b>4.3</b>	<b>1.4</b>	<b>2.8</b>	<b>5.1</b>	<b>3.6</b>
11	Agriculture,forestry,fishing	(7.8)	(4.3)	(26.8)	(22.2)	(1.1)	(9.0)	(11.2)	13.3	20.5	2.2	28.8	23.8	38.6
21	Mining	2.6	5.7	(14.8)	(12.0)	8.6	15.9	13.7	(14.6)	16.1	4.4	(4.2)	73.5	5.0
22	Utilities	2.2	5.9	11.8	14.6	4.3	7.0	17.1	(5.9)	(3.1)	1.5	(0.2)	4.9	4.8
23	Construction	(7.2)	(7.0)	(11.2)	(13.2)	(8.2)	(7.3)	(8.6)	(3.9)	(3.3)	(4.7)	(3.1)	5.1	2.1
31-33	Manufacturing	(5.7)	(0.3)	5.0	7.7	15.7	34.8	24.8	37.0	17.9	3.9	(0.2)	11.5	20.4
42	Wholesale trade	1.4	4.9	7.4	9.0	3.8	8.9	12.6	9.5	13.3	4.4	5.4	8.5	2.4
48-49	Transportation & Warehousing	6.8	10.3	16.3	8.7	25.1	19.9	(5.4)	14.5	13.0	6.5	4.7	(3.8)	5.0
51	Information	1.9	11.4	12.9	10.0	13.2	4.8	5.1	12.7	10.0	14.5	13.3	12.3	21.2
52	Finance, insurance	19.1	11.1	18.2	10.6	1.4	(9.2)	2.2	0.8	(3.4)	1.8	5.3	7.9	3.2
53	Real Estate, rental & leasing	(1.1)	1.5	(1.6)	(0.9)	(2.6)	5.1	(0.3)	0.2	5.0	2.2	(3.9)	(1.3)	0.2
54	Professional, scientific & Tech. services	8.2	13.2	20.6	6.2	20.3	3.4	(3.4)	(3.5)	3.7	(7.7)	4.1	(5.3)	1.0
55-62	Management,education & health services	1.3	14.9	14.3	1.3	11.9	7.7	(0.2)	1.9	6.4	(5.5)	6.7	6.8	(0.4)
71	Arts, entertainment & recreation	3.7	0.3	9.0	1.5	3.2	(0.3)	(0.6)	1.8	4.5	(2.2)	(1.5)	9.7	2.8
72	Accommodation & food services	3.6	2.0	1.5	3.4	3.4	1.7	3.8	3.7	4.7	2.5	0.5	5.0	3.9
81	Other services	(3.3)	7.7	2.4	0.7	1.7	8.0	(2.0)	0.2	7.0	(0.6)	6.7	13.5	5.8
92,99,00	Public Administration & all other	(18.8)	(7.2)	(9.8)	(1.1)	16.5	(10.3)	(4.3)	7.0	1.9	(12.5)	9.6	(2.9)	5.6
<b>Total: All Industries</b>		<b>2.0</b>	<b>5.1</b>	<b>5.0</b>	<b>2.7</b>	<b>5.6</b>	<b>4.7</b>	<b>3.8</b>	<b>3.7</b>	<b>5.2</b>	<b>0.9</b>	<b>2.7</b>	<b>5.9</b>	<b>4.8</b>
<b>Addendum:</b>														
Retail trade & Food services		4.2	5.8	4.3	2.4	5.8	3.0	3.3	1.2	4.1	1.4	2.4	5.0	3.5
Non retail trade & food services		(0.0)	4.5	5.6	2.9	5.4	6.1	4.2	5.8	6.0	0.6	2.9	6.6	6.1
Accommodations		7.9	7.5	2.1	6.3	5.3	3.9	10.4	7.2	7.8	5.4	1.2	7.2	8.9
Retail trade & food service-except auto		3.6	4.9	2.9	1.1	5.0	2.6	2.6	1.6	4.4	0.6	1.7	4.9	2.8
Real estate/construction related		(4.0)	(4.5)	(8.2)	(9.9)	(5.4)	(3.4)	(3.9)	(2.2)	0.1	(1.6)	(2.6)	3.9	2.1
Total less real estate/construction related		3.1	7.2	7.8	5.4	8.1	6.5	5.6	5.1	6.4	1.5	3.9	6.3	5.3
Non retail trade		0.3	4.1	5.2	2.9	5.1	5.6	3.9	5.4	5.7	0.6	2.6	6.4	5.7

\*Electronic payments of EFT taxpayers and ELF taxpayers (includes some non-electronic payments of EFT taxpayers) received by two days after due date.

## Analysis for the Major Sources Based on Taxable Activity

Revenue Act Sources

February 2012 Baseline Forecast

Source/Fiscal Year		Percentage Change		Personal Income
		Tax Base Adjusted*	Personal Income <sup>1</sup>	Elasticity**
I. Retail Sales				
	1994	6.4	5.2	1.2
	1995	5.0	5.9	0.8
	1996	3.0	6.0	0.5
	1997	6.7	8.6	0.8
	1998	8.0	8.4	0.9
	1999	7.1	8.0	0.9
	2000	8.0	8.9	0.9
	2001	2.8	4.3	0.6
	2002	(1.4)	1.6	(0.9)
	2003	2.1	2.4	0.9
	2004	4.6	4.4	1.1
	2005	7.9	5.4	1.5
	2006	10.1	8.2	1.2
	2007	7.9	8.5	0.9
	2008	2.7	8.4	0.3
	2009	(10.4)	0.4	(27.8)
	2010	(6.0)	(1.3)	4.8
	2011	1.8	5.0	0.4
	2012	3.6	3.9	0.9
	2013	4.8	3.4	1.4
	2014	5.3	5.3	1.0
	2015	4.8	5.7	0.8
	Average 1994-2011:	3.7	5.5	0.7
II. Business & Occupation				
	1994	3.1	5.2	0.6
	1995	6.5	5.9	1.1
	1996	4.3	6.0	0.7
	1997	9.4	8.6	1.1
	1998	7.3	8.4	0.9
	1999	6.6	8.0	0.8
	2000	5.6	8.9	0.6
	2001	3.0	4.3	0.7
	2002	(3.5)	1.6	(2.2)
	2003	(1.6)	2.4	(0.7)
	2004	6.8	4.4	1.6
	2005	9.7	5.4	1.8
	2006	11.2	8.2	1.4
	2007	8.3	8.5	1.0
	2008	6.9	8.4	0.8
	2009	(8.8)	0.4	(23.6)
	2010	(2.9)	(1.3)	2.3
	2011	3.5	5.0	0.7
	2012	4.2	3.9	1.1
	2013	4.3	3.4	1.3
	2014	4.7	5.3	0.9
	2015	5.3	5.7	0.9
	Average 1994-2011:	4.2	5.5	0.8

\* Based on constant base taxable data.

\*\* Percent changes in taxable activity divided by percent change in personal income.

<sup>1</sup> Income adjusted to exclude special dividend payment in fy 05.

## Analysis for the Major Sources Based on Taxable Activity

Revenue Act Sources

February 2012 Baseline Forecast

Source/Fiscal Year		Percentage Change		Personal Income
		Tax Base Adjusted*	Personal Income <sup>1</sup>	Elasticity**
III.	Use			
	1994	6.1	5.2	1.2
	1995	6.4	5.9	1.1
	1996	(1.9)	6.0	(0.3)
	1997	(0.7)	8.6	(0.1)
	1998	4.4	8.4	0.5
	1999	(0.1)	8.0	(0.0)
	2000	14.4	8.9	1.6
	2001	8.4	4.3	1.9
	2002	(5.8)	1.6	(3.6)
	2003	(1.4)	2.4	(0.6)
	2004	5.6	4.4	1.3
	2005	14.0	5.4	2.6
	2006	2.3	8.2	0.3
	2007	9.0	8.5	1.1
	2008	2.1	8.4	0.3
	2009	(13.0)	0.4	(35.0)
	2010	(5.9)	(1.3)	4.7
	2011	11.4	5.0	2.3
	2012	4.8	3.9	1.2
	2013	8.3	3.4	2.5
	2014	5.6	5.3	1.0
	2015	5.0	5.7	0.9
Average 1994-2011:		3.1	5.5	0.6

## Total Revenue Act Receipts

February 2012 Baseline Forecast

Source/Fiscal Year		Percentage Change		Personal Income
		Tax Receipts <sup>#</sup>	Personal Income <sup>1</sup>	Elasticity <sup>##</sup>
Revenue Act	1994	7.9	5.2	1.5
	1995	6.3	5.9	1.1
	1996	1.8	6.0	0.3
	1997	5.3	8.6	0.6
	1998	6.3	8.4	0.7
	1999	4.2	8.0	0.5
	2000	7.4	8.9	0.8
	2001	3.9	4.3	0.9
	2002	(1.7)	1.6	(1.0)
	2003	1.0	2.4	0.4
	2004	4.8	4.4	1.1
	2005	7.6	5.4	1.4
	2006	10.6	8.2	1.3
	2007	8.3	8.5	1.0
	2008	4.2	8.4	0.5
	2009	(9.5)	0.4	(25.5)
	2010	(5.3)	(1.3)	4.2
	2011	8.1	5.0	1.6
	2012	1.4	3.9	0.4
	2013	6.0	3.4	1.8
	2014	3.5	5.3	0.7
	2015	5.0	5.7	0.9
Average 1994-2011:		4.0	5.5	0.7

\* Based on constant base taxable data.

\*\* Percent changes in taxable activity divided by percent change in personal income.

# Post-ESSB 5073 definition of Revenue Act

## Percent changes in tax receipts divided by percent change in personal income.

<sup>1</sup> Income adjusted to exclude special dividend payment in fy 05.

# General Fund-State: History and Forecast of Components

History and Forecast by Fiscal Year (Cash basis)

February 2012 - Millions of Dollars

	General Fund-State		Related Fund		General Fund-State plus Related Fund (current definition of GF-S)		Other Near General Fund*		Total Near General Fund	
	Level	% Chg.	Level	% Chg.	Level	% Chg.	Level	% Chg.	Level	% Chg.
History:										
FY 1995	\$8,551		\$248		\$8,799				\$8,799	
FY 1996	\$8,581	0.3%	\$353	42.6%	\$8,934	1.5%			\$8,934	1.5%
FY 1997	\$9,057	5.5%	\$392	11.1%	\$9,449	5.8%			\$9,449	5.8%
FY 1998	\$9,641	6.5%	\$416	6.1%	\$10,057	6.4%			\$10,057	6.4%
FY 1999	\$9,979	3.5%	\$435	4.5%	\$10,414	3.6%			\$10,414	3.6%
FY 2000	\$10,433	4.5%	\$634	45.9%	\$11,068	6.3%			\$11,068	6.3%
FY 2001	\$10,829	3.8%	\$731	15.2%	\$11,560	4.4%			\$11,560	4.4%
FY 2002	\$10,451	-3.5%	\$1,182	61.6%	\$11,632	0.6%			\$11,632	0.6%
FY 2003	\$10,690	2.3%	\$1,031	-12.7%	\$11,721	0.8%			\$11,721	0.8%
FY 2004	\$11,321	5.9%	\$1,037	0.6%	\$12,358	5.4%			\$12,358	5.4%
FY 2005	\$12,067	6.6%	\$969	-6.6%	\$13,036	5.5%			\$13,036	5.5%
FY 2006	\$13,329	10.5%	\$989	2.0%	\$14,318	9.8%	\$115		\$14,432	10.7%
FY 2007	\$14,443	8.4%	\$1,024	3.6%	\$15,467	8.0%	\$266	132.2%	\$15,734	9.0%
FY 2008	\$14,614	1.2%	\$1,045	2.0%	\$15,659	1.2%	\$213	-20.1%	\$15,872	0.9%
FY 2009	\$13,089	-10.4%	\$1,069	2.3%	\$14,158	-9.6%	\$224	5.4%	\$14,382	-9.4%
FY 2010	\$13,571	3.7%	\$0	-100.0%	\$13,571	-4.1%	\$157	-29.9%	\$13,728	-4.6%
FY 2011	\$14,648	7.9%	\$0	0.0%	\$14,648	7.9%	\$112	-29.0%	\$14,759	7.5%
Forecast:										
FY 2012	\$14,772	0.8%	\$0	0.0%	\$14,772	0.8%	\$118	5.6%	\$14,890	0.9%
FY 2013	\$15,512	5.0%	\$0	0.0%	\$15,512	5.0%	\$97	-18.0%	\$15,609	4.8%
FY 2014	\$15,854	2.2%	\$0	0.0%	\$15,854	2.2%	\$100	3.0%	\$15,953	2.2%
FY 2015	\$16,574	4.5%	\$0	0.0%	\$16,574	4.5%	\$104	4.0%	\$16,678	4.5%
<b>Biennial Totals</b>										
<b>03-05 Biennium</b>	<b>\$23,389</b>	<b>10.6%</b>	<b>\$2,006</b>	<b>-9.3%</b>	<b>\$25,395</b>	<b>8.7%</b>	<b>\$0</b>	<b>NA</b>	<b>\$25,395</b>	<b>8.7%</b>
<b>05-07 Biennium</b>	<b>\$27,772</b>	<b>18.7%</b>	<b>\$2,013</b>	<b>0.3%</b>	<b>\$29,785</b>	<b>17.3%</b>	<b>\$381</b>	<b>NA</b>	<b>\$30,166</b>	<b>18.8%</b>
<b>07-09 Biennium</b>	<b>\$27,703</b>	<b>-0.2%</b>	<b>\$2,114</b>	<b>5.0%</b>	<b>\$29,817</b>	<b>0.1%</b>	<b>\$437</b>	<b>14.8%</b>	<b>\$30,254</b>	<b>0.3%</b>
<b>09-11 Biennium</b>	<b>\$28,218</b>	<b>1.9%</b>	<b>\$0</b>	<b>-100.0%</b>	<b>\$28,218</b>	<b>-5.4%</b>	<b>\$269</b>	<b>-38.5%</b>	<b>\$28,487</b>	<b>-5.8%</b>
<b>11-13 Biennium</b>	<b>\$30,284</b>	<b>7.3%</b>	<b>\$0</b>	<b>0.0%</b>	<b>\$30,284</b>	<b>7.3%</b>	<b>\$215</b>	<b>-20.2%</b>	<b>\$30,498</b>	<b>7.1%</b>
<b>13-15 Biennium</b>	<b>\$32,428</b>	<b>7.1%</b>	<b>\$0</b>	<b>0.0%</b>	<b>\$32,428</b>	<b>7.1%</b>	<b>\$203</b>	<b>-5.3%</b>	<b>\$32,631</b>	<b>7.0%</b>

\*Education legacy trust fund (plus pension stabilization fund interest FY 08, 09)



### General Fund-State Cash Estimates - Other Agencies

Comparison of February 2012 to November 2011 Forecast  
2011-13 Biennium  
(Amounts in Millions)

Source/Agency	November 2011 Baseline	Non-Economic Changes	Forecast Changes	February 2012 Baseline	Total Changes
Department of Licensing	\$34.1	\$0.0	(\$0.9)	\$33.2	(\$0.9)
Insurance Commissioner Insurance Premiums	\$861.5	\$0.0	\$0.1	\$861.6	\$0.1
Liquor Control Board Liquor Profits and Fees	\$133.8	\$0.0	\$5.0	\$138.8	\$5.0
Beer and Wine Surtax	\$160.2	\$0.0	(\$0.5)	\$159.8	(\$0.5)
Lottery Commission Lottery Revenue	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
State Treasurer Interest Earnings	(\$26.2)	\$0.0	(\$0.7)	(\$26.9)	(\$0.7)
Office of Financial Management Other Agencies	\$227.4	\$0.0	\$4.0	\$231.4	\$4.0
Administrative Office of the Courts Fines and Forfeitures	\$192.8	\$0.0	(\$1.4)	\$191.4	(\$1.4)
<b>Total General Fund-State</b>	<b>\$1,583.6</b>	<b>\$0.0</b>	<b>\$5.6</b>	<b>\$1,589.2</b>	<b>\$5.6</b>

### General Fund-State Cash Estimates - Other Agencies

Comparison of the February 2012 Baseline to Alternative Forecasts  
2011-13 Biennium  
(Amounts in Millions)

Source/Agency	Optimistic	Baseline	Pessimistic
Department of Licensing	\$34.2	\$33.2	\$32.2
Insurance Commissioner Insurance Premiums	\$883.1	\$861.6	\$840.0
Liquor Control Board Liquor Profits and Fees	\$145.7	\$138.8	\$131.8
Beer and Wine Surtax	\$167.8	\$159.8	\$151.8
Lottery Commission Lottery Revenue	\$0.0	\$0.0	\$0.0
State Treasurer Interest Earnings	(\$13.7)	(\$26.9)	(\$29.9)
Office of Financial Management Other Agencies	\$239.6	\$231.4	\$223.3
Administrative Office of the Courts Fines and Forfeitures	\$196.9	\$191.4	\$186.6
<b>Total General Fund-State</b>	<b>\$1,653.5</b>	<b>\$1,589.2</b>	<b>\$1,535.8</b>
Change from Baseline	\$64.3		(\$53.4)

### General Fund-State GAAP Estimates - Other Agencies

Comparison of February 2012 to November 2011 Forecast

2011-13

(Amounts in Millions)

Source/Agency	November 2011 Baseline	Non-Economic Changes	Forecast Changes	February 2012 Baseline	Total Changes
Department of Licensing	\$34.1	\$0.0	(\$0.9)	\$33.2	(\$0.9)
Insurance Commissioner Insurance Premiums	\$861.5	\$0.0	\$0.1	\$861.6	\$0.1
Liquor Control Board Liquor Profits and Fees	\$133.8	\$0.0	\$5.0	\$138.8	\$5.0
Beer and Wine Surtax	\$160.2	\$0.0	(\$0.5)	\$159.8	(\$0.5)
Lottery Commission Lottery Revenue	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
State Treasurer Interest Earnings	(\$27.0)	\$0.0	(\$0.9)	(\$27.9)	(\$0.9)
Office of Financial Management Other Agencies	\$227.4	\$0.0	\$4.0	\$231.4	\$4.0
Administrative Office of the Courts Fines and Forfeitures	\$192.8	\$0.0	(\$1.4)	\$191.4	(\$1.4)
<b>Total General Fund-State</b>	<b>\$1,582.8</b>	<b>\$0.0</b>	<b>\$5.4</b>	<b>\$1,588.2</b>	<b>\$5.4</b>

### General Fund-State GAAP Estimates - Other Agencies

Comparison of the February 2012 Baseline to Alternative Forecasts

2011-13

(Amounts in Millions)

Source/Agency	Optimistic	Baseline	Pessimistic
Department of Licensing	\$34.2	\$33.2	\$32.2
Insurance Commissioner Insurance Premiums	\$883.1	\$861.6	\$840.0
Liquor Control Board Liquor Profits and Fees	\$145.7	\$138.8	\$131.8
Beer and Wine Surtax	\$167.8	\$159.8	\$151.8
Lottery Commission Lottery Revenue	\$0.0	\$0.0	\$0.0
State Treasurer Interest Earnings	(\$13.2)	(\$27.9)	(\$31.1)
Office of Financial Management Other Agencies	\$239.6	\$231.4	\$223.3
Administrative Office of the Courts Fines and Forfeitures	\$196.9	\$191.4	\$186.6
<b>Total General Fund-State</b>	<b>\$1,654.0</b>	<b>\$1,588.2</b>	<b>\$1,534.7</b>
Change from Baseline	\$65.8		(\$53.5)

### General Fund-State Cash Estimates - Other Agencies

Comparison of the February 2012 Baseline to Alternative Forecasts  
2013-15 Biennium  
(Amounts in Millions)

Source/Agency	Optimistic	Baseline	Pessimistic
Department of Licensing	\$34.1	\$33.1	\$32.1
Insurance Commissioner Insurance Premiums	\$953.8	\$930.5	\$907.3
Liquor Control Board Liquor Profits and Fees	\$111.7	\$106.4	\$101.0
Beer and Wine Surtax	\$60.9	\$58.0	\$55.1
Lottery Commission Lottery Revenue	\$0.0	\$0.0	\$0.0
State Treasurer Interest Earnings	\$4.2	(\$19.3)	(\$32.9)
Office of Financial Management Other Agencies	\$12.4	\$11.8	\$11.2
Administrative Office of the Courts Fines and Forfeitures	\$213.4	\$198.2	\$182.1
<b>Total General Fund-State</b>	<b>\$1,390.4</b>	<b>\$1,318.6</b>	<b>\$1,255.8</b>
Change from Baseline	\$71.8		(\$62.7)

### General Fund-State GAAP Estimates - Other Agencies

Comparison of the February 2012 Baseline to Alternative Forecasts  
2013-15 Biennium  
(Amounts in Millions)

Source/Agency	Optimistic	Baseline	Pessimistic
Department of Licensing	\$34.1	\$33.1	\$32.1
Insurance Commissioner Insurance Premiums	\$953.8	\$930.5	\$907.3
Liquor Control Board Liquor Profits and Fees	\$111.7	\$106.4	\$101.0
Beer and Wine Surtax	\$60.9	\$58.0	\$55.1
Lottery Commission Lottery Revenue	\$0.0	\$0.0	\$0.0
State Treasurer Interest Earnings	\$5.1	(\$18.5)	(\$32.0)
Office of Financial Management Other Agencies	\$12.4	\$11.8	\$11.2
Administrative Office of the Courts Fines and Forfeitures	\$196.9	\$191.4	\$186.6
<b>Total General Fund-State</b>	<b>\$1,374.8</b>	<b>\$1,312.7</b>	<b>\$1,261.3</b>
Change from Baseline	\$62.1		(\$51.3)

## Year-Over-Year Employment Growth by Industry (December 2010 to December 2011)

### Washington vs. U.S.

	Washington		U.S.
	(000)	% Chg.	% Chg.
<b>Total</b>	<b>48.1</b>	<b>1.7%</b>	<b>1.3%</b>
Aerospace Product and Parts Manufacturing	9.8	11.9%	3.7%
Transportation, Warehousing and Utilities	5.1	5.8%	1.8%
Manufacturing Excluding Aerospace	6.8	3.8%	NA
Wholesale Trade	4.6	3.8%	1.7%
Professional and Business Services	8.7	2.6%	3.3%
Leisure and Hospitality	6.7	2.5%	2.3%
Software Publishers	1.2	2.3%	3.5%
Education and Health Services	7.6	2.0%	2.0%
Retail Trade	5.6	1.8%	1.5%
Mining and Logging	0.1	1.7%	11.9%
Other Services	1.4	1.3%	0.4%
Construction	-0.3	-0.2%	1.3%
Financial Activities	-0.5	-0.4%	0.4%
Information Excluding Software	-0.5	-1.0%	-2.0%
State and Local Gov Education	-3.6	-1.5%	-1.0%
State and Local Gov Non-Education	-4.8	-2.3%	-1.4%
Information	0.7	0.7%	-1.5%
Manufacturing	16.6	6.4%	1.8%

Source: WA State ERFC Kalman filtered data, U.S. Bureau of Labor Statistics

## U.S. Forecast Comparison

	2011Q4	2012Q1	2012Q2	2012Q3	2012Q4	2013Q1
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### Real GDP (2005 USD billions)

February Forecast, Final	13,422	13,492	13,566	13,647	13,734	13,819
Percent Change	2.8%	2.1%	2.2%	2.4%	2.6%	2.5%
November Forecast	13,429	13,491	13,563	13,643	13,729	13,828
Percent Change	2.3%	1.9%	2.2%	2.4%	2.6%	2.9%

### Real Consumption (2005 USD billions)

February Forecast, Final	9,481	9,529	9,560	9,610	9,663	9,718
Percent Change	2.0%	2.0%	1.3%	2.1%	2.2%	2.3%
November Forecast	9,510	9,554	9,614	9,671	9,726	9,782
Percent Change	2.6%	1.9%	2.5%	2.4%	2.3%	2.3%

### Implicit Price Deflator, PCE (2005=1.00)

February Forecast, Final	1.145	1.151	1.153	1.159	1.165	1.170
Percent Change	0.7%	1.9%	0.9%	2.1%	2.0%	1.8%
November Forecast	1.148	1.151	1.153	1.158	1.162	1.165
Percent Change	1.7%	1.2%	0.5%	1.7%	1.5%	1.2%

### Real Personal Income (2005 USD billions)

February Forecast, Final	11,406	11,417	11,432	11,490	11,555	11,627
Percent Change	1.9%	0.4%	0.5%	2.0%	2.3%	2.5%
November Forecast	11,446	11,421	11,514	11,577	11,648	11,723
Percent Change	2.0%	-0.9%	3.3%	2.2%	2.5%	2.6%

### Nonfarm Payroll Employment (Millions)

February Forecast, Final	132.0	132.6	133.0	133.5	134.1	134.7
Percent Change	1.4%	1.8%	1.4%	1.4%	2.0%	1.7%
November Forecast	131.6	131.9	132.4	132.8	133.2	133.8
Percent Change	1.1%	1.0%	1.3%	1.4%	1.2%	1.7%

### Unemployment Rate (Percent of Labor Force)

February Forecast, Final	8.7	8.3	8.3	8.2	8.1	8.1
November Forecast	9.0	9.0	8.9	8.9	8.8	8.7

### 30 Year Fixed Mortgage Rate (Percent, average)

February Forecast, Final	4.0	3.9	4.0	4.2	4.3	4.4
November Forecast	4.0	4.1	4.5	4.8	4.9	4.9

### 3 Month T-Bill Rate (Percent, average)

February Forecast, Final	0.0	0.0	0.0	0.1	0.1	0.1
November Forecast	0.1	0.1	0.1	0.1	0.1	0.1

	2011	2012	2013	2014	2015
--	------	------	------	------	------

13,313	13,610	13,965	14,370	14,786
1.7%	2.2%	2.6%	2.9%	2.9%
13,320	13,606	13,987	---	---
1.8%	2.1%	2.8%	---	---

9,421	9,590	9,809	10,076	10,344
2.2%	1.8%	2.3%	2.7%	2.7%
9,432	9,641	9,857	---	---
2.3%	2.2%	2.2%	---	---

1.138	1.157	1.177	1.201	1.228
2.4%	1.7%	1.7%	2.1%	2.2%
1.139	1.156	1.175	---	---
2.5%	1.5%	1.6%	---	---

11,388	11,474	11,759	12,144	12,495
2.3%	0.8%	2.5%	3.3%	2.9%
11,415	11,540	11,847	---	---
2.5%	1.1%	2.7%	---	---

131.4	133.3	135.5	137.6	139.6
1.2%	1.5%	1.7%	1.5%	1.5%
131.1	132.6	134.7	---	---
1.0%	1.1%	1.6%	---	---

9.0	8.2	8.0	7.5	7.0
9.0	8.9	8.5	---	---

4.5	4.1	4.6	5.2	5.8
4.5	4.6	5.0	---	---

0.1	0.1	0.1	0.1	1.3
0.1	0.1	0.1	---	---

## Washington Forecast Comparison

	2011Q4	2012Q1	2012Q2	2012Q3	2012Q4	2013Q1	2011	2012	2013	2014	2015
<b>Real Personal Income (2005 USD billions)</b>											
February Forecast, Final	266.4	267.6	267.1	269.4	269.9	272.2	265.6	268.5	275.9	285.8	295.1
Percent Change	-0.8%	1.7%	-0.8%	3.5%	0.8%	3.4%	2.8%	1.1%	2.8%	3.6%	3.3%
November Forecast	264.7	264.6	267.0	269.4	270.1	272.4	264.5	267.8	275.9	---	---
Percent Change	0.3%	-0.2%	3.7%	3.6%	1.1%	3.5%	2.4%	1.2%	3.0%	---	---
<b>Personal Income (USD billions)</b>											
February Forecast, Final	305.1	307.9	308.0	312.3	314.4	318.4	302.3	310.6	324.8	343.4	362.3
Percent Change	-0.1%	3.7%	0.2%	5.6%	2.7%	5.3%	5.3%	2.7%	4.6%	5.7%	5.5%
November Forecast	303.9	304.7	307.8	311.8	313.8	317.4	301.2	309.5	324.2	---	---
Percent Change	2.0%	1.0%	4.2%	5.3%	2.6%	4.7%	4.9%	2.8%	4.7%	---	---
<b>Nonfarm Payroll Employment (Thousands)</b>											
February Forecast, Final	2842	2853	2862	2875	2890	2906	2823	2870	2927	2978	3032
Percent Change	1.3%	1.6%	1.2%	1.8%	2.2%	2.1%	1.4%	1.7%	2.0%	1.8%	1.8%
November Forecast	2828	2835	2845	2857	2867	2883	2817	2851	2906	---	---
Percent Change	0.7%	1.0%	1.5%	1.6%	1.5%	2.2%	1.2%	1.2%	1.9%	---	---
<b>Unemployment Rate (Percent of Labor Force)</b>											
February Forecast, Final	8.8	8.4	8.4	8.4	8.3	8.3	9.1	8.4	8.2	7.9	7.5
November Forecast	9.1	9.1	9.1	9.1	9.0	8.9	9.2	9.1	8.7	---	---
<b>Manufacturing Employment (Thousands)</b>											
February Forecast, Final	274.7	278.3	279.6	281.0	283.4	285.7	268.6	280.6	287.8	292.0	296.3
Percent Change	5.4%	5.3%	2.0%	2.0%	3.5%	3.3%	4.1%	4.5%	2.6%	1.4%	1.5%
November Forecast	272.7	273.7	275.1	276.2	277.7	279.3	267.9	275.7	281.2	---	---
Percent Change	4.0%	1.5%	2.2%	1.6%	2.2%	2.2%	3.8%	2.9%	2.0%	---	---
<b>Construction Employment (Thousands)</b>											
February Forecast, Final	138.1	138.4	138.2	139.1	139.8	141.5	137.7	138.9	144.5	155.3	169.1
Percent Change	0.4%	0.9%	-0.5%	2.4%	2.3%	4.9%	-2.4%	0.8%	4.0%	7.5%	8.9%
November Forecast	138.6	138.5	139.2	140.0	140.6	142.0	137.9	139.6	144.5	---	---
Percent Change	0.3%	-0.3%	2.0%	2.2%	1.7%	4.1%	-2.2%	1.2%	3.5%	---	---
<b>Housing Permits (Thousands)</b>											
February Forecast, Final	21.4	19.4	19.0	20.2	21.2	22.2	20.6	20.0	25.4	32.3	36.7
Percent Change	25.0%	-32.1%	-7.2%	27.3%	21.3%	19.0%	-0.5%	-3.0%	27.2%	27.2%	13.4%
November Forecast	19.4	19.5	20.1	20.9	21.8	22.9	20.9	20.5	26.2	---	---
Percent Change	-30.1%	0.7%	12.9%	16.9%	19.5%	22.3%	0.9%	-1.6%	27.6%	---	---

**Governor's Council of Economic Advisor's Forecast**  
February 2012

**Calendar Years**

	2012	2013	2014	2015
<b><u>U.S.</u></b>				
<b>Real GDP</b>				
<i>Growth</i>				
ERFC	2.2	2.6	2.9	2.9
GCEA Average	2.0	2.4	2.6	2.7
<b>Real Consumption</b>				
<i>Growth</i>				
ERFC	1.8	2.3	2.7	2.7
GCEA Average	2.0	2.0	2.3	2.4
<b>Implicit Price Deflator, PCE</b>				
<i>Growth</i>				
ERFC	1.7	1.7	2.1	2.2
GCEA Average	1.9	2.0	2.1	2.2
<b>Mortgage Rate</b>				
<i>Percent</i>				
ERFC	4.1	4.6	5.2	5.8
GCEA Average	4.3	4.6	5.1	5.4
<b>Oil Price (WTI)</b>				
<i>USD per barrel</i>				
ERFC	100.6	101.1	97.5	94.3
GCEA Average	93.9	97.1	98.8	97.7

**What is the probability that Europe is already in recession?**

80%

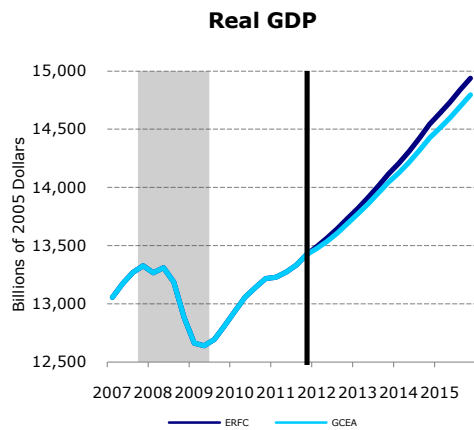
**How many percentage points would a European recession take off U.S. GDP growth this year?**

0.5%

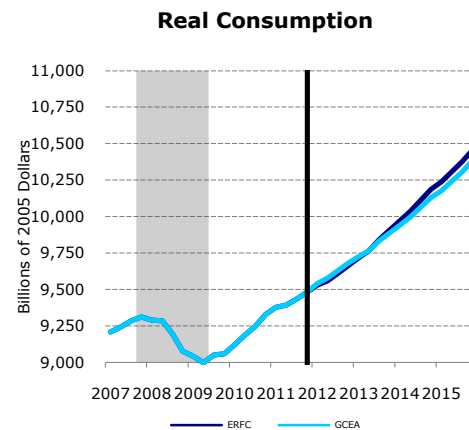
**Washington State**  
**Real Personal Income**

<i>Growth</i>				
ERFC	1.1	2.8	3.6	3.3
GCEA Average	1.4	2.0	2.6	2.7
<b>Wage and Salary Employment</b>				
<i>Growth</i>				
ERFC	1.7	2.0	1.8	1.8
GCEA Average	1.4	1.7	1.8	1.8
<b>Manufacturing Employment</b>				
<i>Growth</i>				
ERFC	4.5	2.6	1.4	1.5
GCEA Average	3.5	2.4	1.5	1.7
<b>Construction Employment</b>				
<i>Growth</i>				
ERFC	0.8	4.0	7.5	8.9
GCEA Average	0.7	2.6	4.4	5.2
<b>Housing Permits</b>				
<i>Thousands of authorized units</i>				
ERFC	20.0	25.4	32.3	36.7
GCEA Average	20.9	25.3	28.6	32.1
<b>Washington Average Annual Wage</b>				
<i>Growth</i>				
ERFC	2.4	2.8	3.3	3.3
GCEA Average	2.2	2.4	2.8	2.9

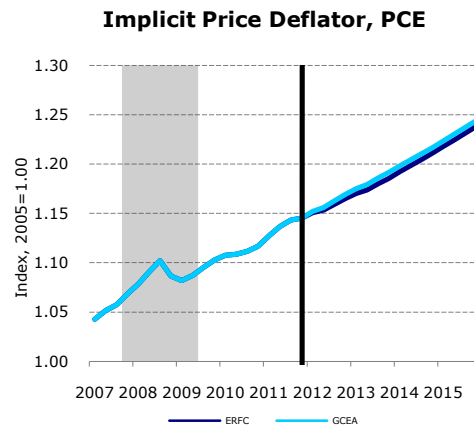
## U.S. Forecast Comparison



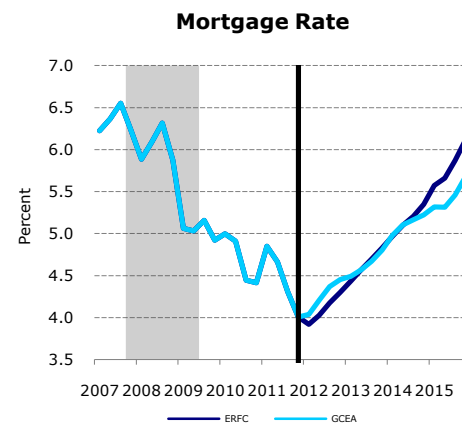
Source: BEA, ERFC, GCEA; Actual data through 2011 Q4



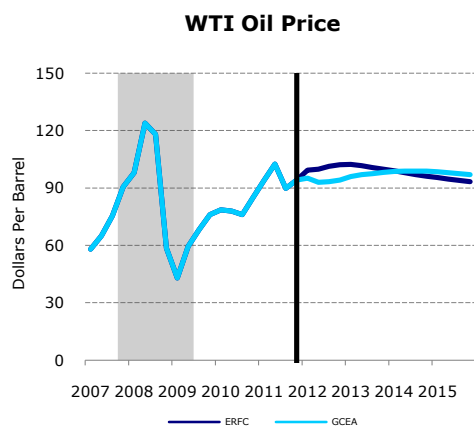
Source: BEA, ERFC, GCEA; Actual data through 2011 Q4



Source: BEA, ERFC, GCEA; Actual data through 2011 Q4



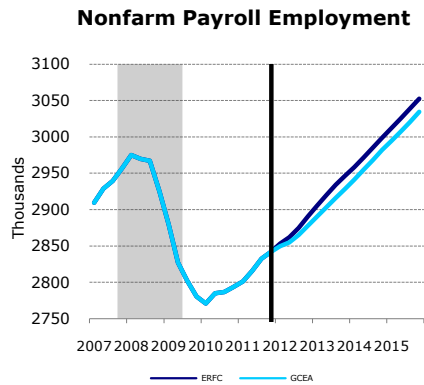
Source: Freddie Mac, ERFC, GCEA; Actual data through 2011 Q4



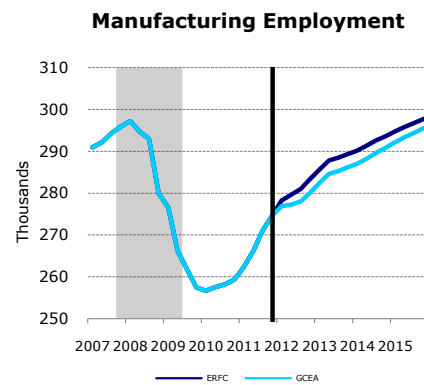
Source: EIA, ERFC, GCEA; Actual data through 2011 Q4



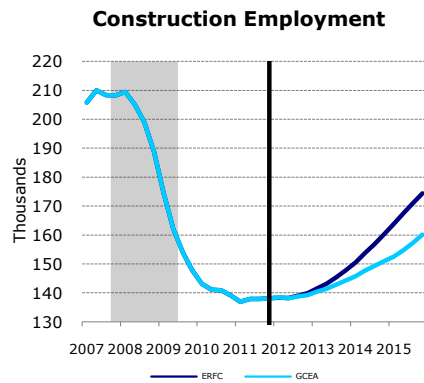
## Washington Forecast Comparison



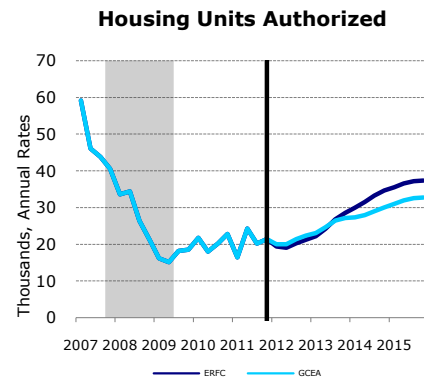
Source: ESD, ERFC, GCEA; Actual data through 2011 Q4



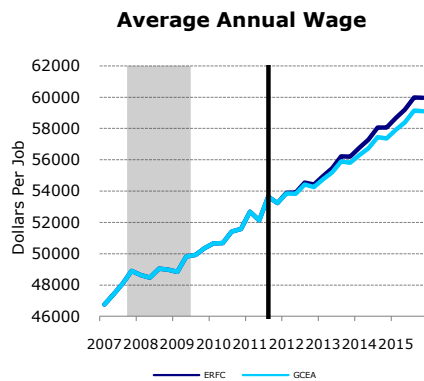
Source: ESD, ERFC, GCEA; Actual data through 2011 Q4



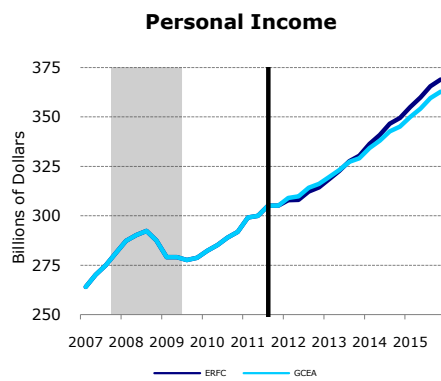
Source: ESD, ERFC, GCEA; Actual data through 2011 Q4



Source: Census, ERFC, GCEA; Actual data through 2011 Q4



Source: BEA, ESD, ERFC, GCEA; Actual data through 2011 Q3



Source: BEA, ERFC, GCEA; Actual data through 2011 Q3

**2011-13 Enacted Budget Balance Sheet**  
**Including December 2011 Legislative Session**  
**General Fund-State (and Budget Stabilization Account)**  
Dollars in Millions

<b>RESOURCES</b>	
<b>Beginning Fund Balance</b>	<b>(92.0)</b>
November 2011 Forecast	30,188.3
SHB 2169 - Modifying the Uniform Unclaimed Property Act	50.6
February 2012 Update (excluding SHB 2169)	45.1
<b>Total February 2012 Update</b>	<b>95.7</b>
<b>Current Revenue Totals</b>	<b>30,284.0</b>
Transfer to Budget Stabilization Account	(264.8)
Pre December 2011 Enacted Fund Transfers	244.1
December 2011 Enacted Fund Transfers (SHB 2058)	106.2
<b>Total Resources (including beginning fund balance)</b>	<b>30,277.5</b>
<b>EXPENDITURES</b>	
<b>2009-11 and 2011-13 Enacted Budgets</b>	<b>31,721.0</b>
December 2011 Legislation (SHB 2058)	(322.9)
<b>Total Expenditures</b>	<b>31,398.1</b>
<b>RESERVES</b>	
<b>Projected General Fund Ending Balance</b>	<b>(1,120.6)</b>
Budget Stabilization Account Beginning Balance	0.6
Transfer from General Fund and Interest Earnings	264.8
<b>Projected Budget Stabilization Account Ending Balance</b>	<b>265.3</b>
<b>Total Reserves (General Fund plus Budget Stabilization)</b>	<b>(855.3)</b>